



The recently enacted Tax Cuts and Jobs Act (TCJA) has altered the tax landscape for a lot of businesses. The changes are extensive, and this letter provides a high-level overview of some of the highlights to keep you informed. There is a lot of information here and if you have questions, feel free to schedule a chat via our website: www.NeedaCPA.com

New corporate tax rate

The prior-law graduated corporate tax rates have been consolidated into one 21% flat rate. The separate rate for personal service corporations of 35% has been repealed. These changes are effective for tax years beginning after Dec. 31, 2017. For fiscal-year corporations, the calculation of tax will be determined using a blended rate based on the number of months at the old versus the new rate structure.

Alternative minimum tax (AMT) repeal

The corporate AMT has been repealed by the TCJA.

Bonus depreciation and Sec. 179 expensing of fixed assets

Bonus depreciation and Sec.179 expensing of property have been available in varying amounts for quite a while. The new tax law has increased the bonus depreciation percentage to 100% until 2023, where it will decrease by 20% until it reaches zero. Bonus depreciation now applies to both new and used qualified property. The Sec.179 expense limit is now \$1 million of allowable expensing with a total purchase threshold of \$2.5 million. If you purchase more than \$2.5 million in eligible fixed assets during the taxable year, the expense limit allowed will be reduced.

The higher limits and expansion in the definition of property that qualifies for these deductions allows for tax planning opportunities. As part of your planning, we'd like to understand your asset purchasing behavior and plans for the future so we can maximize these deductions for you.

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Net operating losses (NOLs)

Under the prior tax law, NOLs could be carried back two years or carried forward for 20 years. Unfortunately, the TCJA repealed the ability to carry back a NOL and claim a refund for already-paid taxes, effective for tax years starting after Dec. 31, 2017. If you have a tax situation that resulted in a NOL, we can advise you of the best options.

Interest expense deductibility

The TCJA introduced a limit in the deductibility of business interest to 30% of taxable income. However, this limitation does not apply to most taxpayers with gross receipts of \$25 million or less. If your gross revenues exceed \$25 million, we recommend having a discussion with us about the impact on your business. Regardless, with careful planning, we can help you maximize your deduction.

Entertainment expenses

The TCJA repealed the deduction for business entertainment. This includes expenditures such as taking clients to sporting events and shows and paying for season tickets for various entertainment events. Since these items are no longer deductible, it is very important to have your company's internal accounting set up appropriately. We can help you identify these expenses and treat them correctly on your tax return. And, we are happy to discuss how to account for these internally to streamline your tax compliance reporting.

Like-kind exchange restrictions

The new tax law restricts a like-kind exchange to real property (e.g., buildings and land). Under the prior law, you could utilize a like-kind exchange for tangible personal property and intangible property used in a business or held for investment. Be aware of this change and contact us so we can help you plan accordingly.

Credit for paid family and medical leave

A new credit was created under the TCJA for employers who provide eligible employees paid family and medical leave. You may be providing paid leave for employees already, so please engage with us to determine if your employee benefit qualifies for the new credit. There may be minor adjustments necessary to make your leave policy compliant with the new credit, which we can help you with.

Changes in tax rates

You may have heard in the news that the goal of tax reform was to reduce the number of tax rates from the existing seven rates to three. While that was discussed, the bill that was signed into law still has seven rates, but they are now generally lower with the highest rate being reduced from 39.6% to 37%. The tax rates applicable to net capital gains and qualified dividends did not change.

Increased standard deduction

The new standard deductions are:

- Heads of household: \$18,000
- Married filing jointly: \$24,000
- All other taxpayers: \$12,000

Although you may have historically had itemized deductions exceeding these amounts, other changes to itemized deductions may affect whether you are above the standard deduction in a given year. The increased standard deduction is effective through Dec. 31, 2025.

Elimination of personal and dependent exemptions

In the past, taxpayers received an exemption for themselves, their spouse and each of the eligible dependents that they claimed on their tax return. The TCJA eliminated these exemptions through Dec. 31, 2025.

Child and family tax credit

The TCJA increased the child credit for children under age 17 to \$2,000 and also introduced a new \$500 credit for a taxpayer's dependents who are not their qualifying children. In addition, the phase-out limits for these credits have increased to \$400,000 for joint filers (\$200,000 for others), so that more individuals will be able to take advantage of this credit.

Changes to itemized deductions

- The overall phase out of itemized deductions has been repealed.
- The itemized deduction for state and local taxes is limited to a total of \$10,000 (\$5,000 for those using the filing status of married filing separately). For example, if you paid \$15,000 in state income taxes and \$6,000 in real estate taxes on your home (\$21,000 in total), you would not be able to deduct the \$11,000 that exceeds the deduction threshold.
- Mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to \$750,000 (down from \$1 million). Loans in existence on December 15, 2017 are grandfathered (balance up to \$1 million still allowed).
- Interest on home equity indebtedness (such as a home equity line of credit) is no longer deductible unless the debt is really acquisition indebtedness (used for home improvement). Consider whether the indebtedness was used for business or investment purposes to determine if an interest deduction may be available in a different category.
- Cash donations to public charities are now deductible up to 60% of adjusted gross income.
- Donations to colleges and universities for ticket or seat rights at sporting events are no longer deductible.
- Miscellaneous itemized deductions, such as investment management fees, tax preparation fees, unreimbursed employee business expenses and safe deposit box rental fees are no longer deductible.
- Medical expenses are deductible by the amount the expenses exceed 7.5% of adjusted gross income for 2018 (limit changes to 10% starting in 2019).

These changes (except as noted) to itemized deductions are in effect from Jan. 1, 2018 through Dec. 31, 2025.

New deduction for qualified business income

A new deduction, effective for tax years 2018 through 2025, was introduced in the TCJA that allows individuals a deduction of 20% of qualified business income from a partnership, S corporation or sole proprietorship, as well as 20% of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income.

This deduction will reduce taxable income, but not adjusted gross income, and is available regardless of whether you itemize your deductions. There are many limitations and restrictions to this provision, so we advise that you schedule a personal consultation with us to fully understand the impact on your situation.

Sec. 529 plans

Sec. 529 plans have been a widely used tool to help taxpayers save money for college, presuming they distribute that money for qualified higher-education costs. Depending on your Sec. 529 plan, you may be eligible for a state tax deduction for contributions to the plan. The TCJA expanded the opportunities available for education tax planning by permitting \$10,000 per year to be distributed from Sec. 529 plans to pay for private elementary and secondary tuition. Contact us to learn how these new rules may help you pay for private school tuition for your family.

Alimony

Under the prior law, individuals who paid alimony to an ex-spouse received a deduction for the alimony paid, while the individuals receiving the alimony treated those payments as income. Tax reform has eliminated the deduction for alimony paid and the recognition of income for alimony received effective for divorce decrees executed after Dec. 31, 2018. We highly recommend that if you are in the midst of divorce proceedings, please have a conversation with us and your divorce attorney to fully understand the financial impacts that this could have.

Estate and gift tax exemptions

Estate and gift tax laws have undergone a number of changes over the past decade. Under the TCJA, the estate and gift tax exemption has doubled to \$11.2 million per person effective as of Jan. 1, 2018. There is still guidance necessary to reconcile gifts made and estates that occurred prior to the increased exemption and the impact on portability. We would be pleased to work collaboratively with your estate planning attorney to make sure your estate plan is appropriate with this change.

Individual shared responsibility payment

The TCJA repealed the individual shared responsibility payment for failure to have minimal essential healthcare coverage. However, this repeal does not take effect until Jan. 1, 2019. This means that if you did not have minimal essential healthcare coverage in the 2018 calendar year, you will still be subject to the penalty if you do not meet one of the exceptions from coverage.